HOUSE OF COMMONS
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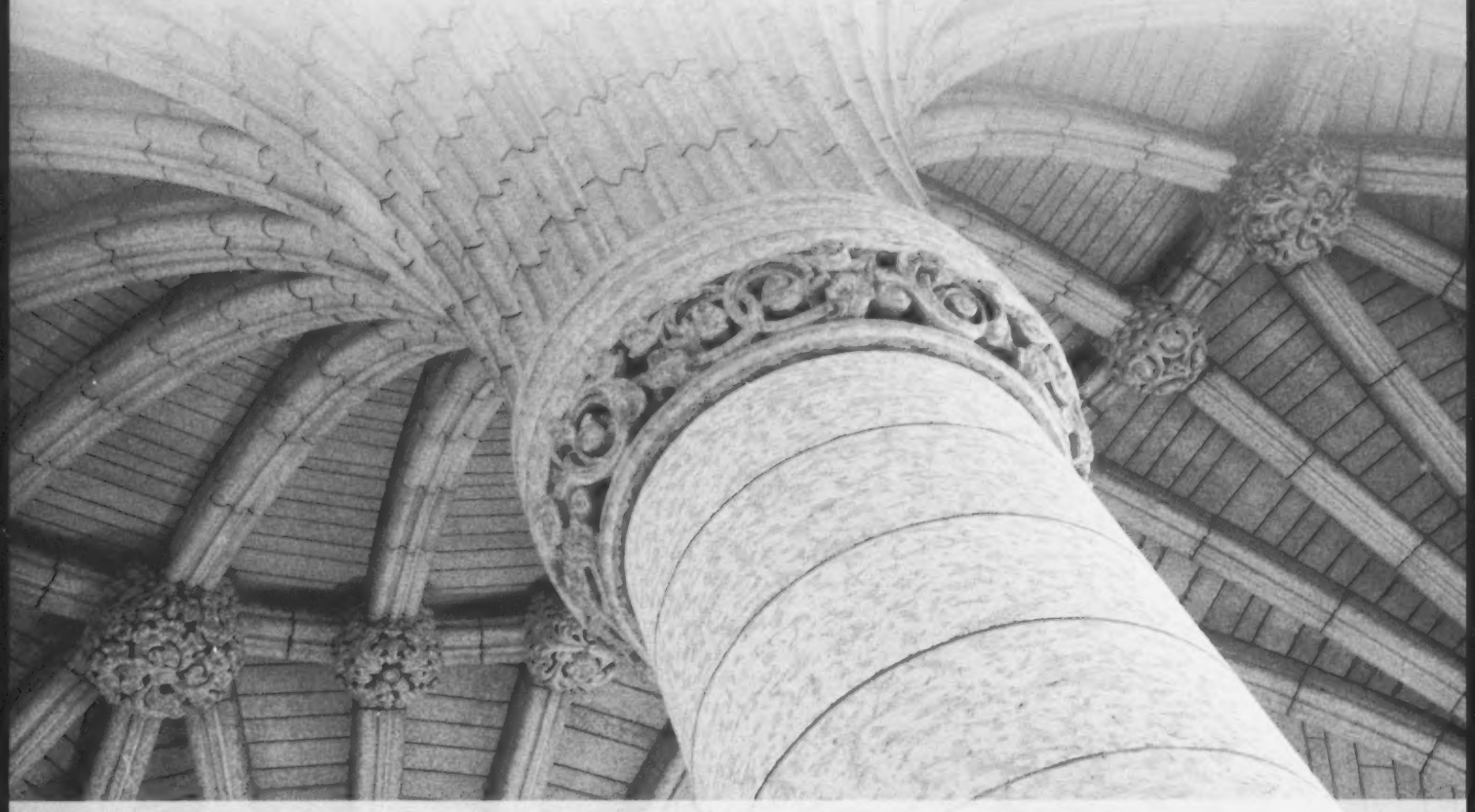
CANADA

SPECIAL EXAMINATION REPORT— NATIONAL CAPITAL COMMISSION, OF THE 2017 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA

Report of the Standing Committee on Public Accounts

The Honourable Kevin Sorenson, Chair



JUNE 2018
42nd PARLIAMENT, 1st SESSION

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Chair

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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* Non-voting member, pursuant to Standing Order 104(5).

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FORTY-EIGHTH REPORT

Pursuant to its mandate under Standing Order 108(3)(*g*), the Committee has studied the Special Examination Report - National Capital Commission, of the 2017 Fall Reports of the Auditor General of Canada and has agreed to report the following:

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SPECIAL EXAMINATION REPORT—NATIONAL CAPITAL COMMISSION, OF THE 2017 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA

INTRODUCTION

The National Capital Commission [NCC or the Corporation] is a federal Crown corporation that was created in 1959 and reports to Parliament through the Minister of Canadian Heritage.[1] According to the *National Capital Act*, "the Corporation's mandate is to help develop, conserve, and improve the National Capital Region in keeping with its national significance as the seat of the Government of Canada."[2]

To that end, the NCC is responsible for managing over 500 square kilometres of land and over 1,700 properties, which include the following official residences of Canada:[3]

- Rideau Hall (residence of the Governor General);
- 24 Sussex Drive and Harrington Lake (residences of the Prime Minister);
- Stornoway (residence of the Leader of the Opposition);
- The Farm (residence of the Speaker of the House of Commons); and
- 7 Rideau Gate (official guest house of the Canadian government).[4]

The NCC's 400 employees fulfil "its mandate through the following activities:

- setting the long-term urban planning direction for federal lands in Canada's Capital Region;

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1 Office of the Auditor General of Canada (OAG), Special Examination Report—National Capital Commission, of the 2017 Fall Reports of the Auditor General of Canada, para. 1.

2 Ibid.

3 Ibid.

4 Ibid., para. 5.

- guiding and controlling the use and development of federal lands in Canada's Capital Region;
- managing, conserving, and protecting the Corporation's assets (including Gatineau Park, the Greenbelt,[5] real property, and other assets, such as bridges, pathways, and parkways); and
- maintaining heritage sites in Canada's Capital Region, such as the official residences and commemorative sites."[6]

Though primarily financed through federal funding, the NCC also "earns revenue from other sources such as rent from its properties and user fees."[7]

On 19 June 2017, the OAG issued a special examination report whose purpose was "to determine whether the systems and practices [the OAG] selected for examination at the National Capital Commission were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138" of the *Financial Administration Act*.[8]

On 3 May 2018, the House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on this audit. From the OAG were Michael Ferguson, Auditor General of Canada and Margaret Haire, Principal; from the NCC were Marc Seaman, Chairperson, Board of Directors and Mark Kristmanson, Chief Executive Officer.[9]

FINDINGS AND RECOMMENDATIONS

According to the OAG, the NCC "has a Board of Directors (the Board) of 15 members, including the Chairperson as well as the Chief Executive Officer. The other 13 members are appointed from the various regions of Canada. Of these Board members, five are from the National Capital Region and eight are from other regions. In 2016, the Corporation made a key change to its governance structure to provide for the ex officio

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5 Ibid., para. 3. The OAG describes the Greenbelt as an "area of mostly undeveloped land surrounding the City of Ottawa's urban core."

6 Ibid., paras. 2–3.

7 Ibid., para. 6.

8 Ibid., para. 7. The special examination report was originally issued to the National Capital Commission on 19 June 2017.

9 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 3 May 2018, Meeting 96.

and non-voting participation of the mayors of Ottawa and Gatineau at Board meetings. The Corporation holds public Board meetings five times a year."[10]

A. Corporate Management Practices

Overall, the OAG found that the NCC "had in place good corporate governance practices."[11] However, although the Corporation "had adequate systems and practices in place for strategic planning and performance measurement and reporting," the OAG also found that it had weaknesses in terms of risk management.[12]

The OAG noted that per its 2007 audit of the NCC, it found that "the Corporation did not have an integrated risk management framework. Management developed an enterprise risk management framework, which was approved in 2008, and also drafted a corporate policy."[13]

For the 2017 audit, the OAG "found that the Board and management completed annual strategic risk assessment exercises. These exercises included identifying risks to achieving the Corporation's strategic objectives and developing strategies to mitigate those risks. However, there was no consistent and integrated process to identify and evaluate risks across the organization."[14] Consequently, according to the OAG, "the Board and management did not prepare a comprehensive inventory of all the risks it faced. Also, management did not establish its risk tolerance levels; therefore, it did not clearly define the level of risk that the Corporation was willing to accept when making decisions."[15]

The OAG contends that such weaknesses "matter because an integrated risk management process and a comprehensive inventory of risks are needed to manage risk effectively. Without them, it is difficult for management and the Board to get the assurance that all significant operational risks have been identified, analyzed, and managed in terms of their potential effects on the Corporation's activities and ability to

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10 OAG, Special Examination Report—National Capital Commission, of the 2017 Fall Reports of the Auditor General of Canada, para. 13.

11 Ibid., para. 16.

12 Ibid., para. 17.

13 Ibid., para. 22. For additional information, see OAG, Chapter 6—Conservation of Federal Official Residences, of the 2008 May Report of the Auditor General of Canada.

14 Ibid., para. 23.

15 Ibid.

meet its mandate."[16] Furthermore, these "elements would also support decision making by management and the Board."[17]

Therefore, the OAG recommended that the NCC "should establish and approve a comprehensive enterprise risk management framework that

- sets risk tolerances;
- assesses strategic and operational risks through a consistent and integrated process; and
- provides comprehensive risk information for decision making."[18]

In response, the NCC stated in its Detailed Action Plan that it agreed with the recommendation and has already implemented "an enterprise risk management framework that provides comprehensive risk information for decision-making."[19] As part of the framework, an "inventory of operational and corporate risks has been created which will be regularly updated;"[20] furthermore, in order to "better inform decision making processes, risk training has been provided to staff on how to identify and rate risks as part of Executive Management Committee and Board of Directors submissions."[21]

When questioned about this framework, Marc Seaman, Chairperson, Board of Directors, NCC, explained the following:

> Every decision will look at pros and cons and have risks. What are the impacts of those risks? What are the mitigations of the risks? That way, at least at the board level, we are able to make an informed decision based on the various risks associated with each of the decisions.[22]

To help ensure the success of the new framework, the Committee recommends:

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16 Ibid., para. 24.

17 Ibid.

18 Ibid., para. 25.

19 National Capital Commission, Detailed Action Plan, p. 1.

20 Ibid.

21 Ibid.

22 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 3 May 2018, Meeting 96, 1620.

Recommendation 1 – Regarding an enterprise risk management system

That, within 120 days of the presenting of this report, the *National Capital Commission* provide the House of Commons Standing Committee on Public Accounts with a report outlining the progress of the Corporation's new enterprise risk management framework and how it sets risk tolerances, assesses strategic and operational risks through a consistent and integrated process, and provides comprehensive risk information for decision-making.

B. Management of National Capital Region operations

According to the OAG, the NCC "collaborates with the cities of Ottawa and Gatineau as well as several other municipalities on many initiatives, including public programming, planning, and property and land stewardship."[23] Additionally, the Corporation seeks feedback from both stakeholders and the public on its various plans for the National Capital Region.[24] Moreover, "the Corporation implemented a business optimization project, which made improvements in its internal processes, service delivery, and information systems. As part of this project, the Corporation replaced its financial system with a broader management information system."[25]

Overall, the OAG "found that the Corporation had established a framework and completed consultations at various levels in the development of its plans for the National Capital Region"[26] and "had good systems and practices in place to manage its capital projects."[27] In contrast, the OAG found that although the NCC had "appropriate systems and practices in place for the life cycle maintenance program for its assets, the oversight of its rental portfolio, and the management of its environmental risks," it had "a significant deficiency in asset maintenance."[28]

According to the OAG, NCC's management "carried out its identified priority asset maintenance work on the basis of the available resources. Because its resources were limited, the Corporation had to delay maintenance on other assets. The Corporation's recent data on asset conditions indicated that 10 percent of its assets were in poor or

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23 OAG, Special Examination Report—National Capital Commission, of the 2017 Fall Reports of the Auditor General of Canada, para. 29.

24 Ibid., para. 30.

25 Ibid., para. 31.

26 Ibid., para. 33.

27 Ibid., para. 34.

28 Ibid., para. 35.

critical condition and 17 percent were in fair condition."[29] These included official residences, heritage buildings, bridges, parkways, and shorelines, some of which are core to the NCC's activities and generate revenue.[30]

The OAG noted that the NCC "Board and management identified and took steps to mitigate the risk that the resources were not sufficient to restore and maintain the Corporation's assets and that the Corporation might not be able to safeguard its assets or meet its mandate in the future. However, as described in paragraph 18, the Board and management did not clearly describe this strategic risk in the annual corporate plan to inform the government of this issue, or describe the mitigation strategy and its related financial impact."[31]

However, it should also be noted that by the end of the period covered by the audit, "management was finalizing a detailed asset-by-asset analysis to quantify the resources required to restore its deteriorating assets to a good condition and to identify the annual level of resources needed to maintain and preserve all its assets."[32]

Consequently, the OAG recommended that the NCC "should develop a full range of options to address its strategic risk related to asset maintenance, based on a complete analysis of the resources needed to restore and maintain its assets. The Corporation should work with appropriate government entities, through the corporate planning process and other means, so that steps are taken to address this strategic risk."[33]

In its Detailed Action Plan, the NCC stated that it agreed with the recommendation and that it has implemented "asset management plans to restore and maintain the Corporation's assets to an appropriate level of condition."[34] Moreover, in its 2018/2019 – 2022/2023 corporate plan, the NCC has "identified the need to address the condition of NCC infrastructure and assets as its number one priority over the 5-year period. Within this priority, the Corporation will:

- finalize asset condition reports to provide the foundation for long-term asset management plans;

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29 Ibid., para. 36.

30 Ibid.

31 Ibid., para. 37.

32 Ibid.

33 Ibid., para. 39.

34 National Capital Commission, Detailed Action Plan, p. 1.

- determine a governance structure and portfolio strategy;
- develop, on a priority basis, long-term asset management plans; and
- implement portfolio strategy and long-term asset management plans to progressively bring assets to an appropriate level of condition."[35]

When questioned about this situation, Mark Kristmanson, Chief Executive Officer, NCC, explained the following:

> About three years ago I focused our efforts on cataloguing and understanding the nature and extent of deferred maintenance across the large and diverse portfolio that Mr. Seaman described in his remarks. In 2016 and 2017, the commission undertook significant efforts to gather information related to all the different aspects of life-cycle processes, inspection activities, capital investments, building condition reports, and so forth, in order to amalgamate them into an integrated framework.
>
> I am very pleased to report that the NCC completed this review prior to the deadline set in our action plan of March 31, 2018. We now have a 10-year recapitalization plan to restore and maintain these assets to an appropriate condition. With the additional $55 million accorded by the government in budget 2018, we can now initiate this plan and address the highest priority demands. We feel this is a judicious investment at this time. It is proportional to our internal capacity to deliver on capital projects while allowing us to address the most immediate risks associated with the assets.[36]

To help ensure the NCC's progress in this matter, the Committee recommends:

Recommendation 2 – Regarding addressing strategic risk

That, within 120 days of the presenting of this report, the *National Capital Commission* provide the House of Commons Standing Committee on Public Accounts with a report outlining its progress regarding A) the Corporation's asset management plans; and B) the related steps pertaining to its 2018/2019 – 2022/2023 corporate plan, as stated in the Detailed Action Plan tabled on 30 April 2018.

ADDITIONAL COMMENTARY

Although not specifically studied in the OAG's special examination, the Committee was very concerned with the Corporation's responses regarding the status of the planned

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35 Ibid., p. 2.

36 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 3 May 2018, Meeting 96, 1540.

renovations to 24 Sussex Drive, one of the official residences of the Prime Minister. As a result, the Committee will request this information from the Minister of Canadian Heritage; it may also bring this matter to the attention of the House of Commons Standing Committee on Canadian Heritage.

CONCLUSION

The Committee concludes that although the NCC had sound systems and practices in place, it did not do a good job regarding asset maintenance, including risk management. It has, however, implemented corrective measures to address these deficiencies. To help ensure the Corporation continues to do so, the Committee has made two recommendations, so that ultimately, the National Capital Region is, and will continue to be, a monument to the greatness of Canada and all Canadians.

SUMMARY OF RECOMMENDED ACTIONS AND ASSOCIATED DEADLINES

Table 1 – Summary of Recommended Actions and Associated Deadlines

Recommendation	Recommended Action	Deadline
Recommendation 1	*National Capital Commission* should provide the House of Commons Standing Committee on Public Accounts with a report outlining the progress of the Corporation's new enterprise risk management framework and how it sets risk tolerances, assesses strategic and operational risks through a consistent and integrated process, and provides comprehensive risk information for decision-making.	Within 120 days of the presenting of this report
Recommendation 2	NCC should provide the Committee with a report outlining its progress regarding A) the Corporation's asset management plans; and B) the related steps pertaining to its 2018/2019 – 2022/2023 corporate plan, as stated in the Detailed Action Plan tabled on 30 April 2018.	Within 120 days of the presenting of this report

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
National Capital Commission	2018/05/03	96
Marc Seaman, Chairperson, Board of Directors		
Mark Kristmanson, Chief Executive Officer		
Office of the Auditor General		
Michael Ferguson, Auditor General of Canada		
Margaret Haire, Principal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 96 and 99) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson, MP
Chair